RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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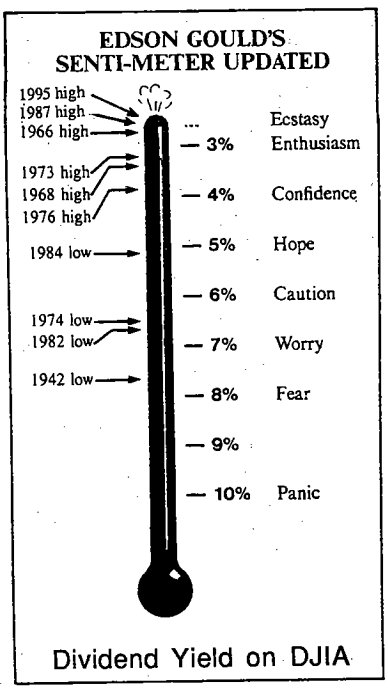
May 24, 1995 **LETTER 1174**

THE MARKET: History is made on Wall Street. Investors (if we can call them that) are now paying over $40 for every dollar of Dow dividends. This is a record -- never before in stock market history has the Dow sold at forty times its dividends. At this point I couldn't resist including this picture. It's the late, great Edson Gould's Senti-Meter, which I have updated. Actually, at 2.47% the yield line has broken through the top of the Senti-Meter. Too bad Edson couldn't be here to give us his comments (or maybe, we wouldn't want to hear them).



My most valuable tool at this time is probably my Primary Trend Index (PTI). I say this because we're "flying blind" in this market in that yields are at record lows, and neither the Transports nor the Utility Average have yet confirmed the new record Dow highs. Furthermore, daily new highs on individual stocks (even with the Dow at record highs) have been sub-standard.

Thus, we "old timers" have a whole list of items to worry about -- and yet, the market, marching to its own drummer, keeps pushing higher. To be honest, it's doing more than just "pushing higher." The rise from December is one of the longest (without so much as a 2% correction in the Dow) that I have ever seen, and indeed, it may be a record.

Think about this -- over the past 12 years we've never had a year in which the Dow has closed below a previous year's low. Over the last four years we haven't had a Dow correction of as much as 10%. Since last December, with the Dow up 20%, we've not had a decline of as much as 2%. As of May 12, the Dow had closed higher for nine consecutive weeks, a rare occurrence. By last week it was obvious that the market was as over-bought as it ever gets.

From the standpoint of the BIG picture, I would think that this market must be *well along in the process of discounting the very best that can be seen ahead -- for years, maybe even decades ahead.* When "it can't get any better" and the market has fully discounted that fact -- that's the time when a bear market can be expected to begin.

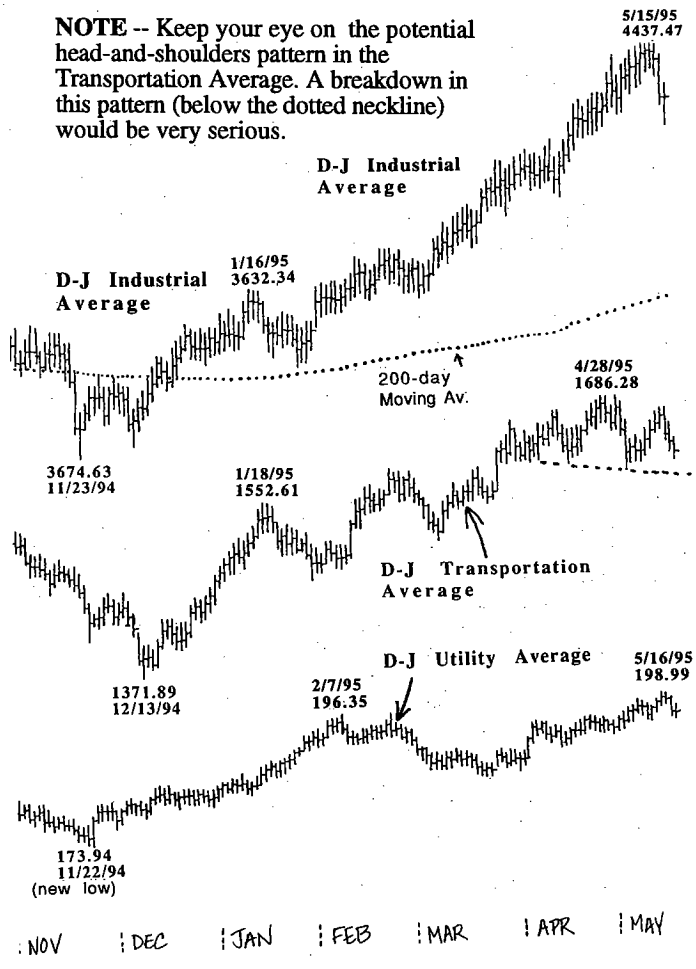
The public's retains its burning desire to "get into the stock market at any price." Furthermore, I feel today's "can't go down" market is a product of two conditions: (1) massive liquidity (the Fed's "adjusted reserves" just keep climbing), and (2) this is a devaluation market. Let's face it, the Fed and the Administration, by sitting on their hands, have "un-officially" devalued the dollar by roughly 15%. And the big-cap stocks (with overseas sales),

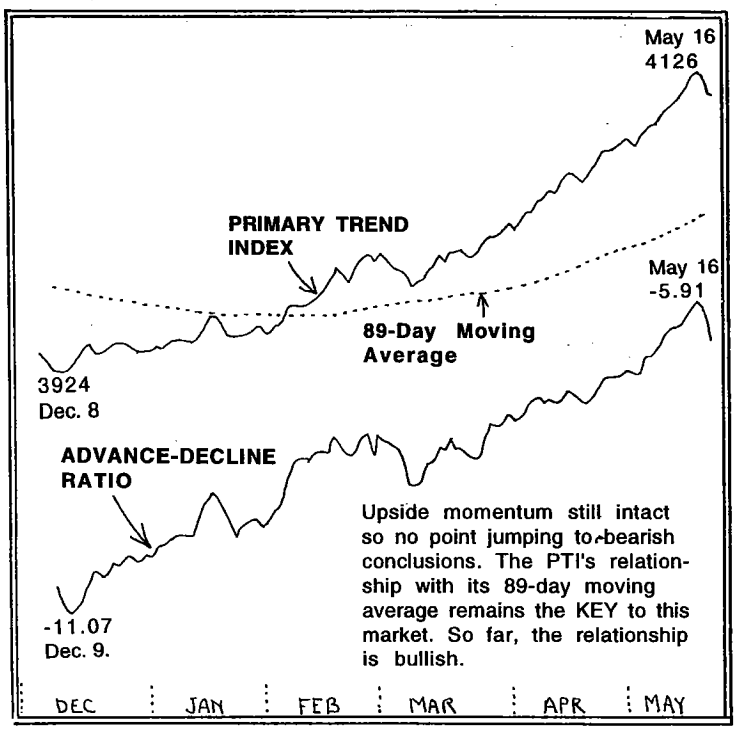
May 12 DJIA 4430.56; PTI 4114; A-D Ratio -6.24
May 19 DJIA 4341.33; PTI 4116; A-D Ratio -6.56
Dow Yield: 2.54%; Dow Price/Earnings: 15.1
Dow 200-day MA: 3938; Dow 30-day MA: 4293
Dow Times Book Value: 3.88; PTI 89-day MA: 4032
Percentage of Undervalued Blue-chips: 7%
Gold 200-day MA: 384.38; Gold-PTI: 732

they love it. Why shouldn't they? The new "cheap dollar" has provided a big boost to exports.

My old "fail safe" indicator, the PTI, has told the story. It turned bearish back on April 1, 1994, saving us a lot of hand-wringing and losses. The PTI then declined for eight months, hitting bottom on December 8, 1994. From its December low the PTI pushed higher. On February 5 of this year the PTI rallied above its 89-day moving average, thereby rendering a bull signal.

The PTI may lead the market, it may be coincident or at times it may even lag -- but it always positions its followers on the right side of the trend. I've said this many times before -- you can follow the PTI or you can ignore it -- but **don't ever go against it** (in other words, don't ever be short when the PTI is bullish, and don't ever be long when the PTI is bearish). To do either is to court disaster. Problem: As of May 17 the PTI was over 80 points above its 89-day moving average. Thus, the PTI and the market are





extremely "overbought." And it would take a while before a bear signal could be rendered on the PTI.

THE DEBATE: Question: Russell, you and a number of other analysts have been pointing to the historic low yields on the Dow and the S&P. With the current wide publicity, everyone appears to be aware of the current "dangerously low" yields. But what about that old Wall Street adage which states, *"What everyone knows is no longer a factor in the market."*

Answer: You're right. By this time I guess everyone knows about the low yields. But the old adage hardly applies here. Yield is not an opinion that you can go "contrary" to, yield is a fundamental element of investing, just as gravity is a fundamental element in physics. You can't say, "everybody is aware of gravity, therefore, gravity is not a factor in physics." Of course, gravity is a basic factor in physics, just as yields are a basic factor in investing.

Question: All right, but why do you think the current historically low yields aren't putting a top on this market?

Answer: Well, I think it's simply a matter of timing. We're in a top area, and the top will come in due time. Another thought is that the stock market tends to be a function of both stock yields *and interest rates*. The bond market has been rising strongly, and obviously as bonds advance, rates come down. The plunging bond yields have served to "bull" the stock market, despite the minuscule stock yields.

One widely-heard argument against yields as a gauge is that "this time it really is different." It's different because the Dow dividend payout is now low, around 38%, and by next year the dividend payout as a percentage of profits could be even lower. Actually, this is a good argument. Nevertheless, my answer to this argument is simple -- I just don't like explaining away a market gauge (dividend yield) that has worked well for the last 100 years.

Question: Russell, what do you make of the plunging bond yields? What might it mean?

Answer: I have to believe that the bond market is saying that some sort of economic slide lies ahead -- either a "soft landing" or perhaps even a "hard landing."

Question: What happens in each case?

Answer: If it's a soft landing, the current declining bond yields and maybe even the rising stock market make sense. A true soft landing would be a comforting situation for both the stock and bond markets.

On the other hand, if we're in for a hard landing and a deep recession, then I would say that the stock market is heading for major trouble.

Question: First, talk about the soft landing.

Answer: A soft landing may not hurt the big-cap stocks, the financial or even the technology stocks. But note that many of the retail stocks (and I discussed this months ago) are already in bear markets. During the last few years corporate America has been downsizing, computerizing, firing hundreds of thousands of blue and white collar workers. As a result, corporations have become lean and mean and profits are up strongly. Furthermore, the majority of corporations (particularly the large ones) are in good shape and ready to withstand a soft landing or a mild recession.

However, that doesn't hold true for the American consumer. He's the one who's been laid off. He's the one who's over his head in debt. He's the one who voted the Democrats out of office. He's the one who's paying the taxes, and he's the one who's "mad as hell."

So you really have an amazing split in this nation -- increasingly you're dealing with "haves" and "have-nots." The haves (making up maybe 30% of the nation) are technically-oriented, understand computers or else they are solidly entrenched in important or niche industries. Then we have the other 70%; these are the unskilled, the burger-flippers, the un-needed, the low echelon blue collar workers, the people who have lost their jobs or whose jobs are on the line. These people are angry, and they don't know what to do or which way to turn. They form the army of the insecure, the unemployed, the skeptics, the people who for the first time in US history believe that their kids won't have as good a life as they have (and their own life is nothing to write home about).

But getting back to the original question, it's the soft landing that the great majority of economists now expect. What would constitute a soft landing? The soft landing would be just short of a mild recession. Business would slow down a bit, inventories would be worked down, the Fed might decrease rates, and the stock market would continue to like the picture (even though certain stocks groups might be hit hard, namely those stock groups that were most dependent on the debt-laden public, a public that was trying to pay off its debts, and a public that was cutting back on its buying).

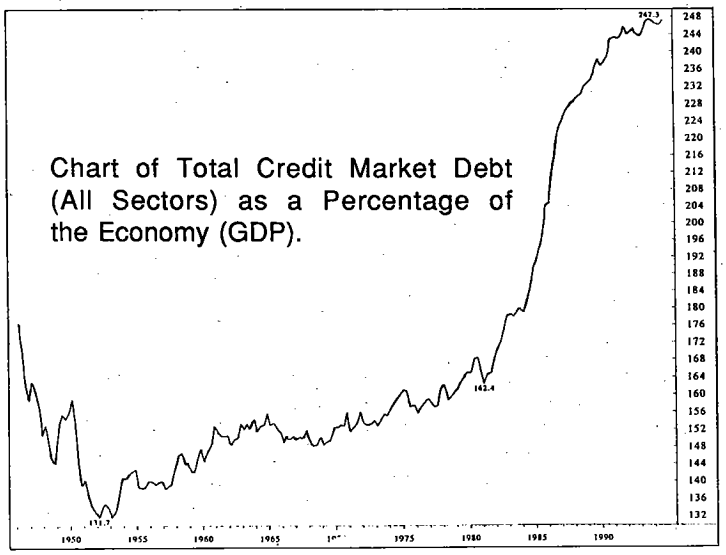
Question: OK, so much for a soft landing, but what if we get a surprise? And I'm talking about a hard landing, a real recession, even a brutal recession?

Answer: If a real recession is in our future, the markets certainly don't sense it yet. Unless those non-confirming Transports are telling us that something in the big picture is very wrong. Despite the lagging Transports, my Primary Trend Index continues to rise, telling me that the overall technical structure of this market continues bullishly intact.

However, things can change. What the majority of economists are predicting doesn't have to happen. Consider this -- consumer buying accounts for two-thirds of the Gross Domestic Product. If the current mild cut-back in consumer buying evolves into, say a massive cut-back, then we've got problems. A major consumer cut-back would bring on a severe recession, no question about it.

Oh yes, there is one factor that enters into the hard-landing scenario. And that is DEBT. This chart (courtesy of *Ned Davis Research*) shows total credit market debt as a percentage of the economy or Gross Domestic Product. Remember, the GDP can change drastically, but debt remains. So if GDP declines drastically, this chart (which is already rising parabolically) would

sky-rocket as the ratio of debt to GDP becomes unsustainable. Just a thought, just a thought.



Question: Russell, you've talked about various "landings." But suppose we've already had the soft landing, and the economy is fated to heat up towards the end of this year or even in '96?

Answer: Ah, you're talking about a launching, a take-off from here, a new boom. If that's what's in the cards, then we should see indications of it in bonds (which would be heading down) and gold (which would be heading up), and certainly from Transports (which would be advancing to new highs). That's not happening. But why guess, let's just watch for the indications from here.

Question: OK, one final question -- Russell, why have the Dow and the S&P and a lot of high-cap stocks continued to head higher -- to the point where they are establishing record low-yields?

Answer: Here are my thoughts. *A great many mutual funds measure their performance against the S&P.* These funds are monitored daily by the public and by investment services. With the S&P rising, the funds are under tremendous pressure to keep up with the S&P. In other words, with around two billion dollars a week in new money coming into the mutual funds, the fund managers are literally forced to buy and buy and buy so that they can try to keep pace with the rising S&P.

That's the situation, and it's wild. If I'm correct then this market is FEEDING ON ITSELF. On top of everything else, we've got a short squeeze, a situation where thousands of short sellers are being forced to run to cover. My opinion -- *this is a dangerous situation. Be prepared!* **(See Late Notes on page 6.)**

INVESTMENT POSITION: Well, here we are with the Dow yielding a record low 2.47% and the Transports yielding a mini 1.35%. I'm well aware that the market discounts the future, but c'mon -- the Dow's yield could double, and it still wouldn't be equal to the current T-bill yield. So at these prices, I can only conclude that the Dow is discounting not only the future but the here-after. It's really an act of faith to buy stocks in this area.

?

It has occurred to me that maybe investors, consciously or unconsciously, are simply escaping from paper dollars. Art prices have been going up, many commodities have pushed higher, housing prices are rising, and stocks have rallied. But on the other hand, gold has not risen that much, and bonds are heading higher. Best guess is that the stock market is simply capitalizing bond yields. As bonds rally and bond yields decline, the stock market rises. The stock market will rise until the BEST THAT LIES AHEAD is fully discounted in the price structure. It's as simple as that.

I've kept the question mark in the box. I'm afraid it's going to take more time before we know the true status of this market. But if there's one thing I've learned in dealing with markets it's that one must exercise patience. Personally, I'm not in a hurry, because I know that the market will always be there.

Conclusion: Conservatism is the stance I recommend. Conservatism = conservation of capital.

Along these lines, have you read the incredible story of the "New Era Charity" in last week's *WSJ?* This outfit promised to double your money within a six month period. How? Well, certain (unnamed) benefactors were supposed to match the money coming in. By last week New Era had estimated assets of $80 million but owed $551 million. So they filed for bankruptcy. It turns out there was no list of benefactors. The amazing part of the whole thing was that so many supposedly sane people put big money into the fund. Templeton supported the fund's president. The list of unsecured creditors runs to 300 including John Whitehead, former co-chairman of Goldman Sachs, Laurance S. Rockefeller, Vivian Piasecki (trustee of the Univ. of Pennsylvania), plus about 150 assorted philanthropists. Yeah, Barnum was right, there's a sucker born every minute. But these people were supposed to be sophisticated.

NOTES & QUOTES: The economy is slowing, auto sales are sliding as are home sales, and these two comprise roughly half of total consumer buying. Nevertheless, economists remain confident and optimistic. The consensus prediction -- a "soft landing." Will it happen the way economists tell it? Nobody knows, but soft landings are quite rare. A "hard landing" in our future? We'll know by the fall.

Economists Say Chances of a Recession Remain Slim, In Spite of Recent Data

April Unemployment Rose To an Unexpected 5.8% As 9,000 Jobs Were Lost

More Signs That the Economy Is Slowing

Payrolls Shrank Last Month ... Change in nonfarm payrolls; thousands, seasonally adjusted

And the Unemployment Rate Rose in Most Big States

March April

* *

History being made? House Republicans are submitting a budget that will cut growth of government spending by $1.5 trillion over the next seven years. The plan includes eliminating various departments including Education, Energy, Commerce, cutting Medicare growth by $305 billion, and reducing cost-of-living adjustments for pensions. Will the program go through? Who knows, but it will at least show that Republicans are serious about cutting the budget.

* *

Just got a call from an old friend in LA. He was outraged. He told me his father just had an angioplasty performed at Cedars-Sinai Hospital. The hospital bill for three days (not including the doctor's bill) was $39,000. I told him there must be some mistake. He said no, that's the bill -- most will be paid be Medicare. No wonder Medicare is going broke! No wonder doctors are against low-cost chelation. The hospitals survive on surgery. My operation for bypass 10 years ago cost $65,000. A stent put in my chest three years ago cost $35,000. It's crazy.

* *

Progress? Some historians believe that the 20th Century has been the bloodiest century in history, maybe only comparable to 1618 to 1648 (the "Thirty Years War") when mercenary armies roamed across Europe, battering and slaughtering the civilian populations with a ferocity not seen previously. But can the 17th Century really compare to our bloody 20th Century with Hitler, Stalin, two world wars, atomic bombs, the Holocaust, genocide, death squads, and tens of millions of people killed? Note: there are 27 wars going on

even as this is written; furthermore, there have been more than 150 individual wars since WWII. What are the actual WWII combat death figures? Here's the list: USSR -- 13.6 million dead; Germany -- 3.3 mil. dead; China -- 1.3 mil. dead; Japan -- 1.1 mil. dead; Poland -- 320,000 dead; UK -- 271,000 dead; Yugoslavia -- 305,000 dead; **USA -- 292,000 dead** and 671,000 wounded. Total -- 20 million soldiers from 27 nations killed, plus another 20 million civilians killed during the war.

* *

This is how columnist Russell Baker starts his May 9th column in the *NY Times:* "Youth of America, heed this word: *downsizing*. It is the word of the future; Remember it; Downsizing. Say it three times, Downsizing, Downsizing, Downsizing." **Russell comment:** You bet it's the key word of both the present and the future. It's the word (and the action) that has rendered many of America's corporations "lean and mean." Of course, the other side of downsizing is unemployment, also known as the big blizzard of pink slips. The guy who had the $100,000 job, he's been laid off, and now he's taken a $30,000 job and glad to have it. His buddy who had the $80,000 job, he's out looking for work.

The other phrase worth remembering is "virtual" as in "virtual corporation." The virtual corporation is the company that does a lot of business with very few employees. How do they do it? They farm out everything they can to other companies. Accounting is farmed out, advertising is farmed out, security is farmed out, consulting is farmed out, even sales are farmed out. The virtual corporation -- the enterprise of the future: big sales, big ideas, big profits, few employees.

* *

An interesting new book, "Jews and the New American Scene," by Seymour and Martin Lipset warns that US Jews are disappearing into the great American melting pot. Jews now have a 57% intermarriage rate and a birthrate that's well below replacement levels. The authors note that three forces held Jews together in the past -- anti-Semitism, support for Israel and liberalism. My feeling (at least judging from the West Coast) is that all three are subsiding. Example -- my two oldest daughters (each of them three-quarters Jewish) have both married Catholics. I'm guessing that their kids will not grow up as Jews. Of my son's five best friends, four have Jewish fathers and Christian mothers. Which seems to be about par for the course out here in California.

* *

Russell Opinion: The O. J. trial, to my mind, will end up putting the jury on trial. Will the predominantly black jury convict him? O. J., the wife beater, stalker, control-freak. The DNA, I believe, overwhelmingly demonstrates that O. J. is guilty. The defense has resorted to the absurd -- on one hand insisting that the LAPD is incompetent, on the other hand implying that the LAPD executed a brilliant and fiendish conspiracy to plant the evidence and sink O. J. Give me a break. Let's get the trial over with already, he's guilty . . . I think the Oklahoma tragedy may have brought America to its senses; there are more important things than sitting by the TV all day long, watching the O. J. trial. Recent polls show that the O. J. trial audience is trailing off . . . Have you heard the radio ad about spousal abuse? A woman is screaming and groaning in the background, and we are told that in the US a woman is being abused every minute. I told my daughters, "The day your husband hits you, pack up and move out." A husband who beats his wife needs jail time -- a wife who takes it needs therapy time . . . You can make snide remarks about talk radio, but I think it's great. Sure a lot of it is strident and even wrong, but it's finally an antidote to the overwhelmingly liberal press. At last Americans are getting some contrary political views and it's making them think. Limbaugh is now heard on 660 stations; and when a station takes Rush on, its income heads higher, a lot higher. Talk ratio -- it's driving the liberals up the wall . . . Can you watch Dave Letterman? I can't; he's pure vanilla, a bore, a poor interviewer, and he never wipes that silly smile off his face. C'mon, Dave, life can't be eternally funny . . . Have you noticed (finally) how much non-fat food is now available at the stores? Non-fat chocolate sorbet, non-fat refried beans, non-fat milk, non-fat bread, etc. Next step, I hope, leaving out the salt. They've got the whole country hooked on salt. Read the labels. Worst offenders, anything in cans. Salt and sugar are both habit-forming. You can learn not to salt your food; you can learn to leave the sugar off your shredded wheat, you can learn to stop buttering your bread. All of these are habits you can learn to break, and you'll be the better for it . . . Talked to a psychologist at a party last night. We both agreed that group therapy (remember the '60s?), and a lot of psychological help has faded from the scene. Today, if you have problem, you take it out on somebody else -- you hit your wife, you sue your neighbor, you plead insanity, you do anything but take responsibility for your own actions. It's sad; an indication of a society on the decline.

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I truly feel guilty about the small type in these Letters. But I have a lot to write about and only six pages to fit it in (actually, I leave out a lot in each Letter that I would like to have included if I had the room). I could easily fill up another page, but that would increase my postage costs (which are high enough already). Besides, how much of Russell can you stand every two weeks?

* *

Reader's Digest reports that counterfeit hundred dollar bills (beautifully printed) are flooding the world (there may be as much as $100 billion of this bogus money out there). Jim Grant wants to know if we should call the counterfeit money supply "C-1". Of course, one problem with being able to print "wealth" is that anybody with technical know-how can copy your "money," thereby manufacturing their own phony "wealth." It's estimated that half the dollars flying around Russia are counterfeit.

* *

I always peruse the day's TV programs in the morning paper. Yesterday at breakfast I spotted something that interested me. "Hey," I told my son, Ryan, "Discovery Channel is doing a program on the North American B-25." Ryan asked, "Is that a new plane?" "No," I replied, "that's the plane I flew in during the War." At first I was a bit annoyed, and then I thought, thank God this is a time when kids don't know a B-25 from a BG-Racer from a Stearman. Ryan is 17 -- when I was 19, I was sweating out "Aircraft Identification" courses in the Army Air Force. Of course, every father's fear is that his son will some day have to go to war. I often think of what my parents must have felt -- their fears, their long years of waiting, after I enlisted in the army at the tender age of 18. I grew up during World War II. I said good bye to the Army Air Force at the age of 22.

I watched many of the World War II 50th anniversary ceremonies on TV, particularly the one's out of London. I got a bit teary-eyed as I thought of the many fine young men I knew who never came back or who didn't come back whole. I started out in the infantry in 1943, but transferred to the Army Air Force after infantry basic training. I ended up as a bombardier with the 12th Air Force. Later I found out that fully half my buddies in my infantry company had been killed on D-Day when they hit the Anzio beach.

I got to Naples in late '44 with my B-25 (Mitchell bomber) crew of seven. We had been told that we'd have about two weeks of intensive training before going into combat. Then, a day after we arrived we were informed that due to an unexpectedly large number casualties, we would be needed for combat immediately. We were ordered to fly our plane north to the B-25 base at Falconara on the east coast of Italy. Two days later we got the order for our first mission. Bomb the Brenner pass at 10,000 feet, then hit the deck and "strafe everything that moves" (my plane had two 50 caliber machine guns mounted forward, two in the upper turret, two in the lower turret, one on each side handled by waist gunners, one in the tail and one flexible in the nose which I handled). In other words, we had a load of fire power.

The first mission -- 18 B-25s heading to northern Italy. Another bombardier in the flight was a good buddy of mine, a fellow name Stan Janovsky. Stan and I had gone through bombardier school together and miraculously we ended up in the same squadron. On this mission Janovsky was in the plane in front of me. As we headed north, I waved to him as he sat huddled in the nose of his plane. Within half and hour we were approaching the Brenner Pass, and I saw my first flak coming up from German 88s. Little puffs of black smoke filled the sky. The flak would explode near us, making crackling sounds like gravel hitting a tin roof. When a burst of flak got close, our whole plane would jump. I broke out in a cold sweat. My oxygen mask began to fog. Then acting

automatically as if in a dream I opened the bomb-bay doors; the plane lurched as it slowed down due to air-drag. The bomb run was on, which meant no evasive action. Until the bombs were dropped we had to stay on a straight and level course. This is always the most dangerous part on the run.

Then as I looked up I saw Janovsky's plane shudder. It's right engine was smoking. Slowly his B-25 was sinking, sinking, falling away from the formation. I couldn't believe it. Janovsky going down. Was it real? Was he gone? Was this what could happen to us? At that moment I discovered what real fear is. I think that's about the time I started to lose my hair.

Janovsky's plane hit a level stretch of ground with its full load of bombs intact. Amazingly, the plane didn't explode. But the heavy top turret crashed down, fracturing Janovsky's leg. His crew was rescued by friendly Partisans, and he was out for the duration. A purple heart on his first mission, and he was alive and heading stateside. Lucky SOB.

* *

USA Today (May 9) ran an interesting cover story piece on America's low-savings workers. *"The way baby boomers grew up made comfort a cliché. But millions of the most privileged generation won't ever have enough money to retire."* In a CNN/Gallup Poll it was revealed that 40% of Americans have set aside less than $1,000 a year for retirement. With low savings, less-than-desired pension levels and the good possibility that Social Security will be cut, there'll be problems ahead for millions of Americans who will be retiring after the turn of the century. The baby boomers are the 76 million people born between 1946 and 1964. *USA Today* continues, *"As children they strained the schools, as young adults they flooded the job market. Then when they started buying houses, prices skyrocketed. Next, they face retirement age. But the money isn't going to be there. It's going to be a problem."* **Russell comment**: If the current move to balance the budget is put in place, there's going to be less money all around for everybody. Remember, our "prosperity" has been built on federal deficits of $1 billion-a-day. To balance the budget, that $1 billion-a-day will have to be cut sharply.

* *

I've just finished the new Gennifer Flowers book ("Passion and Betrayal"). It took me only two hours to read it, but I thought the book was honest, quite interesting and absolutely convincing. The Clinton-Flowers relationship continued for 12 years. Flowers goes into it in detail. Clinton has denied the relationship, and I'm convinced that he lied through his teeth. Clinton would have looked better if he'd said, "Look, it happened, I did it, it's behind me, I'm not proud of it, I'm sorry." Instead, Clinton chose to deny what happened. Worse, he later sought to degrade and discredit his former lover. When I finished the book I was just plain angry. I can't stand a liar. To me, the **test of a man** is this -- when the time comes to deal with the pain, does he admit and accept his part in it, or does he thrust the pain on someone else. From inhaling pot to his sexual adventures, Clinton never admits to anything. So as for as the test is concerned, he doesn't pass it.

* *

I like gossip (please forgive me). And since I have teen-age kids, I also like to know what's going on out there. I just finished the new book, "Model," by Michael Gross. Fashion models have surpassed Hollywood's leading ladies as the new glamour-darlings. Fashion programs now swamp TV. Fashion is the new "in" thing. Christie, Naomi, Claudia, Cindy, every teen-ager knows who they are. The book, "Model," tells the whole story, much of it fascinating, much of it sordid, much of it about under-age sex, drugs, smoking, money, intrigue. My 14 year-old daughter, Lauren, is already five-foot nine and has model looks. I'm telling her, "Just say no to being a model."

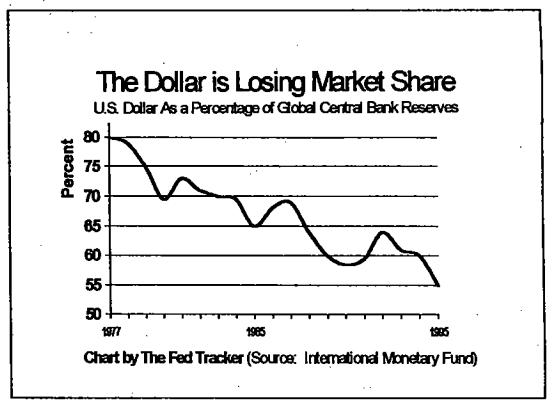
* *

Peter Brimelow's new book, "Alien Nation," has created quite a stir, particularly among liberals. He writes, "The United States is being engulfed by the greatest wave of immigrants it has ever faced. The latest immigrants are different from those who came before. These newcomers are less educated, less skilled, more prone to trouble with the law, less inclined to share American culture and values, and altogether less likely to become Americans in name or spirit." **Russell comment:** Whew! Them's harsh words. But the fact is that two million immigrants a year are coming to America. That amounts to a new Los Angeles every other year. Are there racial overtones in Brimelow's complaints? Sure there are. He believes the US is on the way to becoming a white-minority nation. Is that bad? Damned if I know. Listen, the country started out that way. Weren't the Indians here first? Still --

* *

Andrew Krieger, writing in the May 22 issue of *Forbes*, looks for *"one more climactic down in the dollar, a decline so precipitous that it will finally force some form of international cooperation on what is now a collection of nations each pursuing its own domestic interests . . . International 'cooperation' is a farce, implemented only when it suits domestic considerations."* **Russell comment:** The big change is that the Cold War is over and the G-7 nations no longer need the US military to protect them from the Soviets. Nations are no longer willing to be dictated to, or be bullied by the US. Thus, in today's world it's every nation for itself, and the **battle for world exports** is on.

Nevertheless, the dollar has taken a terrific beating over recent months. Now it has bottomed and rallied, and I'm thinking the dollar is going into a trading range against the yen and the major European currencies. The dollar surge on May 12 was powerful and impressive. I believe that put an important low in for the dollar. And maybe, just maybe, the world is taking seriously the Republican's promise to balance the budget. No matter, this chart shows that as a percentage of world central banks' reserves, the dollar has been steadily losing out. Will the dollar continue as the world's reserve currency? Yes, at least for the foreseeable future. Of course, this has little to do with the near-term, the weekly or monthly trend of the dollar against other currencies [chart courtesy of *The Fed Tracker*, (619)720-0107].



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The pentagon is awaiting approval to begin production on the "Laser Countermeasure." This is a 40-pound portable gun that fires a beam of light powerful enough to burn out a human retina from up to 3,000 feet. It's purpose, to blind battlefield surveillance -- binoculars, gunner's sights, electro-optics, snipers. The operator points the laser gun at the enemy, pulls the trigger, and in a second the enemy is blinded. The UN has been trying to ban blinding laser weapons. I wonder, is this a preview of future wars? Not very pretty.

* *

If you're thinking of saying "bye-bye" to the US in order to save taxes (particularly inheritance taxes) think again. The US government doesn't want you to spend your money, they want to spend it for you . Along with this year's budget, Clinton included a load of new revenue-raising proposals. One of them, the so-called "expatriation tax," would hit citizens wanting to leave the country with a fat new tax. As the law now stands, the US is the only nation in the world that imposes significant income and death taxes on its citizens, *regardless of where they live*. Clinton's new tax proposal would mark all assets to market at the time he left, and you would pay taxes on any gain.

* *

I've been getting into the Internet via Microsoft's Windows, and frankly, it's been quite difficult (at least for me). At this office we have both IBM computers and Macs. Last week I bought a "Global Village Teleport Platinum" modem (top quality and a crazy name)

and put in the Mac software for the Internet. Conclusion -- via the Mac it was A LOT easier to get into the Internet. I'm on the America Online system, and AOL claims that shortly they'll have access to the World Wide Web. **Opinion:** Apple made a huge mistake in not licensing their operating system for all computers years ago. If they had, Apple would be where Microsoft is today, and Microsoft would be a lot smaller. Conclusion: the Mac system is just plain user-friendly.

* *

Bruce Willis is one of the highest paid actors in Hollywood ($12 million and up per movie). His wife, Demi Moore, is Hollywood's highest paid actress. Here's why Bruce got involved with politics: "I got involved in 1992 with the presidential election, because I heard Bill Clinton saying that there's something wrong with the American dream, that it's wrong to want to achieve something, it's wrong to attain wealth. He was setting up this class war and saying 'rich people are the enemy!' And that's BS, man. That is the American dream -- busting your ass for a certain amount of time and then getting *out* of that! That's what everybody wants to do." **Russell comment:** I think Bruce speaketh the truth.

* *

The new art auctions are going fairly well, although some claim all we're seeing is a bounce from the art-smash of 1990. But wait, maybe it's the beginning of a return to tangibles (see tangible study in the last Letter). At any rate, at the Sotheby's auction in NYC two weeks ago this Picasso sold for $29.1 million to Andrew Lloyd Weber, the highest price for a painting worldwide in the last five years. And who says great art doesn't appreciate in price? This same picture was bought from NYC's Knoedler gallery in 1946 for $22,220 (of course, back in 1946 I was buying Chinese dinners for 80 cents). Then a few days later the Modigliani was sold at Christie's for a fat $12.5 million, a few million above the estimate. Modigliani was a street artist. If you were in Paris around the early 1900s, Modigliani would have painted your portrait for maybe $40. Ah, if we only knew.

* *

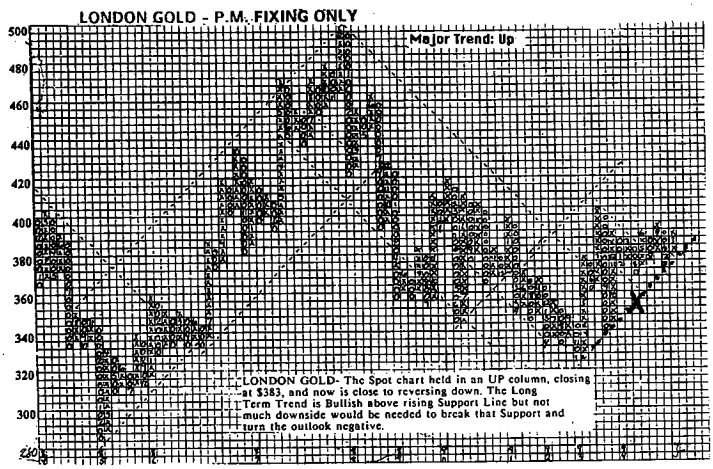
What's going on? All last week *WSJ* week (front page pieces) featured articles about the huge "New Era" scam involving as much as half a billion dollars and hundreds of big names. Yet no other paper has picked up the item. Never seen anything like it. What is this, a conspiracy of silence?

* *

A subscriber sent me this cartoon from the April 8 South China Morning Post. Is this what Asians think of the dollar? Must be.

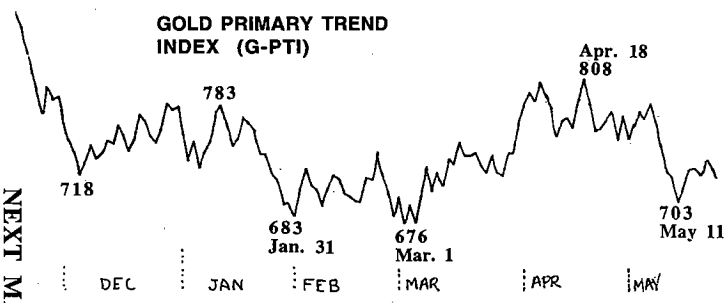
HERE'S ANOTHER ONE WHO WANTS TO PAY WITH US DOLLARS...

GOLD: The worst thing you can say about the gold action is that with all the recent dollar weakness, gold was never able to rally, which was obviously discouraging to gold bulls. The best thing you can say about gold is seen on this point & figure chart. Gold has not broken below the rising or bullish trendline, which I have designated with an X on the chart; a break would entail a spot gold at 372 (chart courtesy of *Chartcraft,* POB 2046, New Rochelle, NY 10801).


LONDON GOLD - P.M. FIXING ONLY
Major Trend: Up
500
480
460
440
420
400
380
360
340
320
300
LONDON GOLD- The Spot chart held in an UP column, closing at $383, and now is close to reversing down. The Long Term Trend is Bullish above rising Support Line but not much downside would be needed to break that Support and turn the outlook negative.

The arguments for higher gold are not hard to find. Gold is dirt cheap in terms of yen and D-marks and, for that matter, gold is cheap in terms of dollars. Gold has had to absorb tons of the metal that central banks have sold, but now that selling is subsiding. Gold is cheap in terms of rising PPI inflation figures. The Dow/gold ratio is fairly screaming that gold is a buy. After all, one unit of the Dow can now buy over 11 ounces of gold whereas back in 1980 one unit of the Dow bought only one ounce of gold. Believe me, the current Dow/Gold ratio is wildly out of whack.

My **Gold-Primary Trend Index (G-PTI)** shows that the whole gold universe has been locked in a fairly tight trading range during 1995 -- with the low of the G-PTI at 676 (March 1) and the high at 808 (April 18). At this point there's no sense trying to guess the outcome -- we'll wait to see which way the G-PTI breaks. A drop below 676 would be discouraging. On the other hand, if the G-PTI can advance above 808, I would expect gold to move up and quickly test the 400 dollar resistance level and simultaneously I would expect the gold stocks to surge.



LATE NOTES: An 82-point Dow dive last week, and then a recovery bounce. What does it mean? One robin doesn't make a spring, and one decline doesn't necessarily spell "the end of the line." We'll watch the upward bounce to see how far it can carry.

Of course, last Thursay's (May 18) drop gives us some levels to watch. On the upside we have the Dow high of 4437.47 and the Transport high of 1686.28. If BOTH of those levels are bettered, we'll receive the "All Clear" signal. But -- if BOTH Averages break the lows of last Thursday, we'll have the makings of a full secondary reaction, or worse. The May 18 lows were 4340.64 (Industrials) and 1639.94 (Transports).

Last thought: Clinton's "revenge" ban on selected Japanese luxury cars is risky and basically stupid. It could set off a trade war, it will hurt US distributors, and it will reinforce Japan's plan to concentrate on Asia and slowly "write off" the US. And what if Japan decides to sell part of its billions of dollars worth of US T-bonds? Or what if Japan decides to trade in its dollars for real money (gold)?

NEXT MAILING: June 7, 1995